



AmInvestment Bank

Sector report

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TELECOMMUNICATION

MCO 2.0 amid consolidation prospects

OVERWEIGHT

(Maintained)

Rationale for report: Sector update

Investment Highlights

- **Partly mitigated impact from new round of MCO.** The reimposition of the movement control order (MCO) yesterday could have a partly mitigated impact on cellular operators (celcos), which experienced lower prepaid subscriber acquisitions with the temporary closure of physical outlets and suspension of postpaid accounts for non-payment back in March–April last year. Recall that this partly contributed to celcos' revenue contracting QoQ by 8.7% in 2Q2020 and 7.5% in 3Q2020 before recovering 6% in 3Q2020 with the relaxation of movement restrictions.

From our channel checks, operators remain cautious on further stresses on small-medium businesses amid declining overall disposable income from the lockdowns and slower economic activities. However, celcos are more prepared this round and also hopeful for a partly mitigated impact from subscriber renewals and subscriptions as the previous lockdown had encouraged more consumers to embrace digital platforms and online payment channels. Additionally, this MCO 2.0 is less onerous given the imposition on less states vs. the first lockdown while the free 1GB data offer for productivity and education has been extended indefinitely since last month. This is unlikely to significantly increase operators' cost structure while driving higher work-from-home data usage.

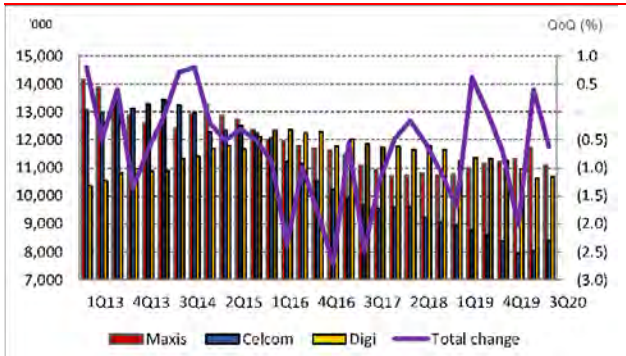
- **Unrelenting competition in mobile and rising for fibre.** In our view, the larger concern for operators is the unrelenting competition in mobile and fixed line business. Currently, U Mobile offers the most competitive plan with a RM30 prepaid package, which offers unlimited data and 6GB hotspot with speed cap of 6Mbps together with RM5/month top-up for unlimited calls. Meanwhile, Digi's current entry-level plans for prepaid packages at RM15/month and postpaid at RM38/month are gaining traction even with limited data quotas. In the fibre broadband market, TM's unifi has been aggressively competing for market share with recent promotions of free 42" Sharp TV sets and redemption of the RM500 penalty fee for switching from Maxis Home Fibre. In Peninsular Malaysia, Celcom and Digi have begun to target selectively market segments in the Klang Valley for their fibre-to-home offerings.
- **Net subscribers contracted.** Cellular net subscribers decreased by 188K to 30.2mil in 3Q2020 after registering a surprisingly strong 121K QoQ increase in 2Q2020. Maxis again was the main cause of the variation as the group registered an unexpected 618K reduction in subscribers vs. a net gain of 373K for Celcom and 57K for Digi. The main drag stemmed from a reduction of 277K prepaid users to 20.2mil, wholly attributable to Maxis' 683K drop with the removal of revenue-generating subscribers beyond 30 days, SIM consolidation and intense competition. This was the only prepaid decline amongst cellular operators as Celcom managed to register a 339K increase with the launch on unlimited data packages while Digi rose by 67K.
- **However, celco's 3Q20 earnings recovered from Covid-19.** 3Q2020 celco core net profit recovered with an increase of 20% QoQ to RM925mil after contracting by 11% due to the impact of the MCO which affected service revenue, subscribers and ARPU. Celcos' 3Q2020 service revenues rose 6% QoQ to RM5.4bil, which drove EBITDA by 8% QoQ and EBITDA margin up by 2 percentage points (ppt) to 16.2%. The higher service revenue stemmed from average revenue per user (ARPU) rising by RM2/month to RM42/month and postpaid subscribers increasing by 76K QoQ to 9.8mil. The best performer was Axiata's Celcom, which spearheaded a sizzling 66% QoQ surge to RM240mil in 3Q2020 after an 18% decline in 2Q2020. This was followed by Digi, which climbed 11% QoQ and Maxis' 8% QoQ.
- **Maxis loses prepaid lead to Digi.** In 3Q2020, Maxis' overall subscriber market share of 37% retained its lead over Digi's 35% while Celcom remained third at 28%. However, Digi has now retaken its pole position in the prepaid segment with the highest market share of 38% from Maxis, which has fallen to 35% following its sharp 3Q2020 reduction. Nevertheless, Maxis' postpaid subscriber focus and convergence strategy with its fibre broadband services remains formidable as compared to Digi and Celcom's.
- **Consolidation still in play.** As we highlighted on 11 August 2020, declining data yields, new 5G spectrum fees and capex pressures are likely to drive players to seek consolidation amongst themselves to reduce costs, secure economies of scale and reduce rivalry. While the MCMC has shown a preference for maintaining competitive pressures to provide reduced broadband prices for consumers, we view that the industry's stagnant revenue trajectory will eventually drive the sector towards more merger and acquisition activities, which was viewed as inevitable during Axiata's analyst briefing last month.
- **Maintain OVERWEIGHT with BUY calls for TM,** which has shown significant cost improvements together with more compelling dividend yields while **Axiata** offers bargain EV/EBITDA valuations with multiple opportunities for monetisation as the group aims for higher dividend payout policies. These valuations are even more compelling given their 3–4 star rating for ESG compliance on the FTSE4GOOD INDEX.

EXHIBIT 1: VALUATION MATRIX

Stocks	Call	Price (RM)	FV (RM)	Up/down side (%)	Mkt Cap (RMmil)	Enterprise Val. (RMmil)	EV/EBITDA (x)		EPS growth (%)		PE (x)		ROE (%)	NDPS (sen)	Div Yld (%)	Net debt/FY20F EBITDA (x)	
							FY20F	FY21F	FY20F	FY21F	FY20F	FY21F					
Axiata	BUY	3.70	4.50	21.6	33,905	Dec	46,507	4.2	4.1	(46.7)	23.8	43.7	35.3	3.5	9.5	2.6	1.5
Maxis	HOLD	5.05	5.50	8.9	39,474	Dec	47,839	12.9	12.1	19.0	20.3	26.5	24.9	20.3	19.0	3.8	2.4
Digi	HOLD	4.07	4.40	8.1	31,644	Dec	36,336	11.5	11.1	(13.5)	7.2	25.5	23.8	223.9	15.9	3.9	1.4
Telekom	BUY	5.50	6.10	10.9	20,669	Dec	27,743	7.1	6.9	27.3	27.9	20.2	19.7	12.6	17.0	3.1	1.4

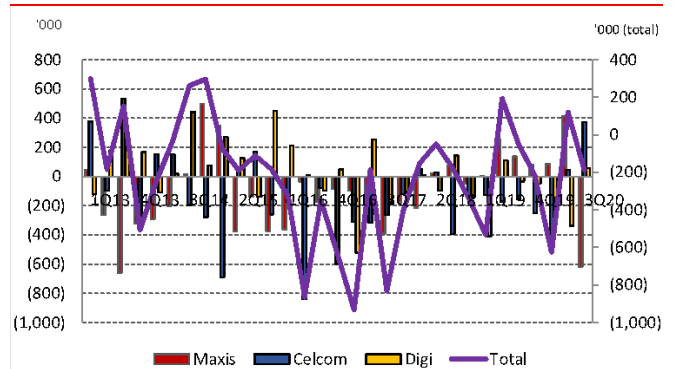
Source: AmlInvestment Bank

EXHIBIT 2: MOBILE SUBSCRIBERS



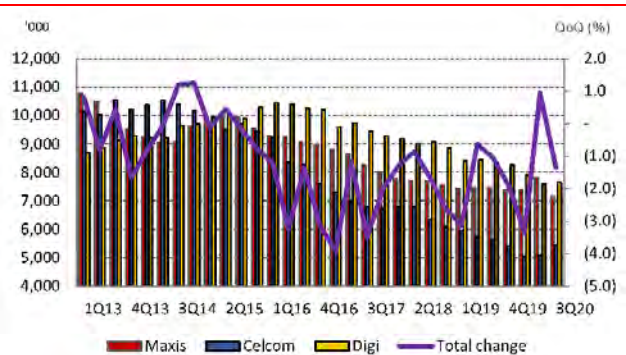
Source: Companies' investor presentation slides

EXHIBIT 3: MOBILE SUBSCRIBER CHANGES



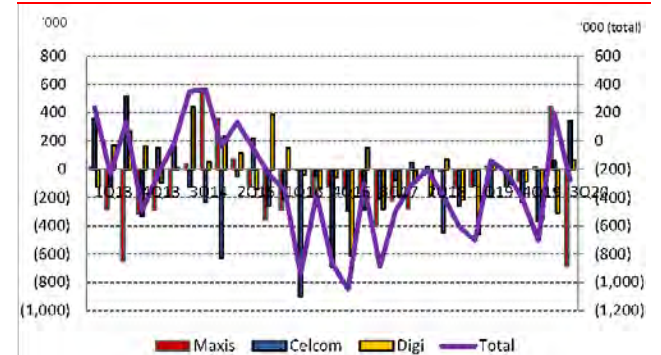
Source: Companies' investor presentation slides

EXHIBIT 4: PREPAID SUBSCRIBERS



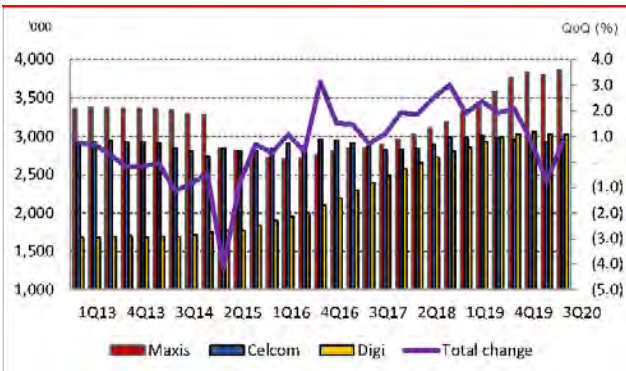
Source: Companies' investor presentation slides

EXHIBIT 5: PREPAID SUBSCRIBER CHANGES



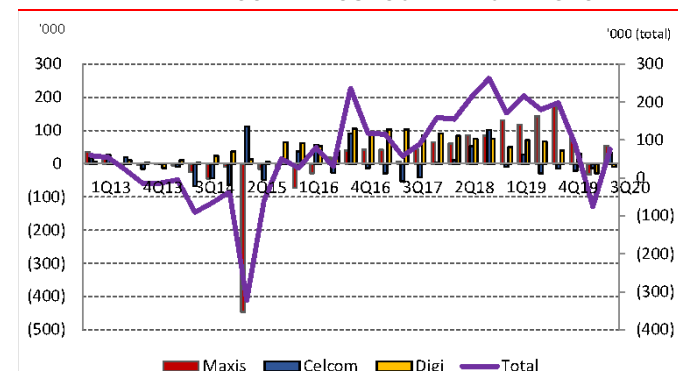
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EXHIBIT 6: POSTPAID SUBSCRIBERS



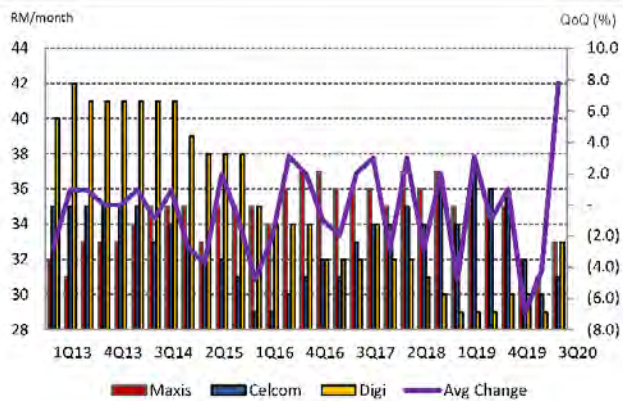
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EXHIBIT 7: POSTPAID SUBSCRIBER CHANGES



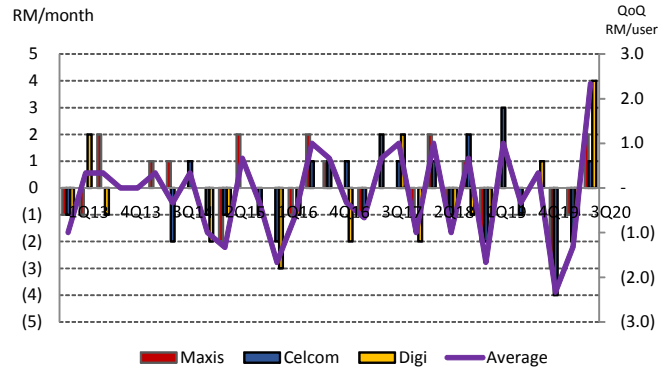
Source: Companies' investor presentation slides

EXHIBIT 8: PREPAID ARPU



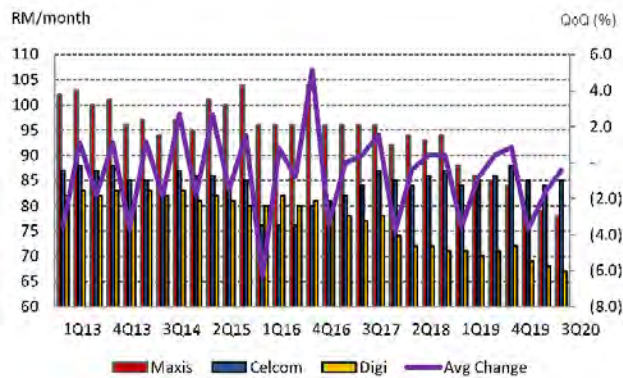
Source: Companies' investor presentation slides

EXHIBIT 9: PREPAID ARPU CHANGES



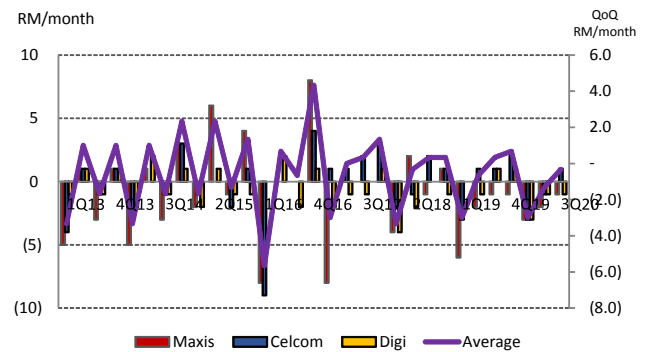
Source: Companies' investor presentation slides

EXHIBIT 10: POSTPAID ARPU



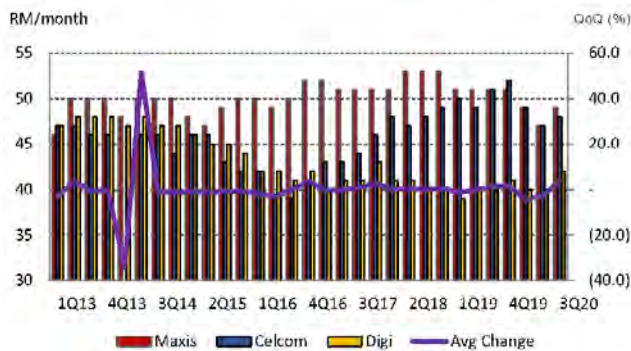
Source: Companies' investor presentation slides

EXHIBIT 11: POSTPAID ARPU CHANGES



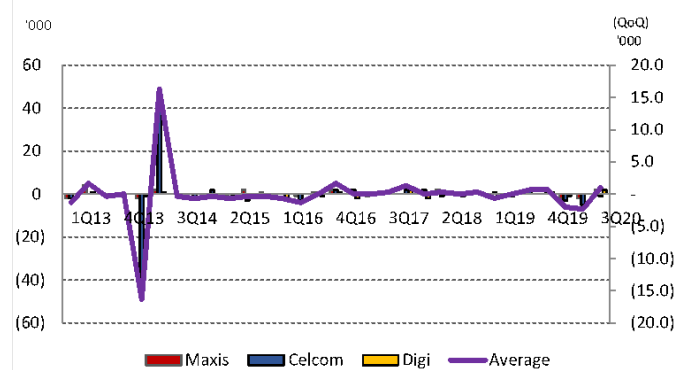
Source: Companies' investor presentation slides

EXHIBIT 12: BLENDED ARPU



Source: Companies' investor presentation slides

EXHIBIT 13: BLENDED ARPU CHANGES



Source: Companies' investor presentation slides

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